

# **TENNESSEE HOUSING DEVELOPMENT AGENCY**

## **THE AMERICAN DREAM DOWNPAYMENT INITIATIVE (ADDI)**

### **INTRODUCTION**

The American Dream Downpayment Initiative ("ADDI") was created by Congress on December 16, 2003. As a set-aside within the HOME program, THDA has received a combined ADDI allocation of \$1,602,419 in FY 2003 and FY 2004 funds. Effective September 1, 2004, the THDA ADDI funds will be available for the first six months to eligible applicants who are purchasing homes in areas outside the local participating jurisdictions of Memphis, Knoxville, Chattanooga, Shelby County, Knox County, Nashville-Davidson County, and the Northeast Consortium of Bristol, Johnson City, Bluff City and Kingsport. These participating jurisdictions receive their own ADDI funds directly from HUD. The goal of ADDI is to increase homeownership rates, especially among lower income and underserved populations, and to revitalize and stabilize communities.

### **HOW TO APPLY FOR ADDI FUNDS**

In partnership with non-profit agencies, public housing agencies and other public agencies, the Tennessee Housing Development Agency will provide \$10,000 for downpayment and closing cost assistance directly to eligible applicants for the purchase of single-family housing. Partner agencies will be invited to submit their Intent to Participate to THDA. A list of participating partner agencies will be published on the THDA website and families wishing to apply for ADDI funds will be referred to them. THDA reserves the right to request documentation of the agency's status as a qualifying partner in the ADDI program.

The partner agencies can apply to THDA, on behalf of qualified applicants, to reserve ADDI funds for up to 120 days prior to closing. THDA will provide and maintain on its website an indicator, updated monthly, of the available, uncommitted balance of ADDI funds.

In preparation for closing, the partner agencies will submit required documentation to THDA. Upon review and approval by THDA, a check for ADDI funds and the required legal documents securing the homebuyer's obligations will be sent to the closing attorney.

### **ADDI PRIORITY STATUS FOR PROGRAM MARKETING**

All persons residing in the identified THDA jurisdiction, who meet the income and first-time homebuyer requirements, are eligible to apply for ADDI assistance. However, THDA recognizes that there are persons who are in critical need of downpayment assistance in order to achieve homeownership. THDA will directly market the ADDI program to these populations who will be encouraged to contact the partner agencies to assist with obtaining ADDI assistance through THDA. The priority target populations are as follows:

- Section 8 Homeownership Voucher participants;
- Tenants in Public Housing or manufactured homes;

- Families transitioning from Public Housing to Homeownership; and
- Special Needs populations (the Developmentally Disabled; the Mentally Ill; and the Physically Disabled.)

## **HOMEBUYER ELIGIBILITY**

Applicants must meet all of the following requirements:

- The family income must be at or below 80% of area median income as defined by the Section 8 Rental Assistance Program (see **Attachment I: Income Determination** and **Attachment II: 2004 Income Limits**).
- The family must be a first-time homebuyer (not having owned a home within the past three (3) years).
- The family must occupy the property as his/her principal residence.
- The family must complete a THDA approved homeownership education program prior to closing.
- The family must obtain fee simple title to the property.

## **PROPERTY REQUIREMENTS**

Property to be purchased using ADDI funds must meet all of the following requirements:

- The property must be a single-family (1-4 family residence, condominium unit, or combination manufactured home and lot).
- The property must not be occupied by a tenant.
- The sales price may not exceed the ADDI sales price limits (see **Attachment III: Property Value Limits**).
- The property being purchased must meet local codes, or in the absence of local codes, the Standard Housing Code. If the unit being purchased is financed by Rural Housing or is FHA-insured, their property standards will be acceptable and a Standard Housing Code inspection is not required.
- All homes built before 1978 must pass a visual lead-based paint assessment. Under HUD's lead-based paint regulations (24 CFR Part 35, et seq.), there must be no deteriorated paint in the dwelling at the time of the visual lead-based paint assessment (i.e., chipping, cracking, chalking, damaged, separated from substrate). The property being purchased must receive a passing lead-based visual assessment by a housing professional who has at a minimum completed HUD's Lead Based Paint Visual Assessment Training Course. This one hour course may be completed on HUD's web-site at <http://www.hud.gov/offices/lead/training/visualassessment/h00200.htm>.

Should a home fail a visual assessment, it would be the responsibility of a willing seller to bring the home into compliance with all HUD lead based paint regulations using approved methods, workers, and clearance testing as more fully detailed under (24 CFR Part 35, et seq.) if the transaction were to proceed utilizing ADDI funds. *ADDI funds cannot be used to pay for any rehabilitation activities.*

## **ADDI HOME PROGRAM REQUIREMENTS**

- THDA ADDI funds cannot be combined with other HOME funds.
- UNIFORM RELOCATION AND PROPERTY ACQUISITION. - Under the Uniform Act, the seller of the property to be acquired with ADDI funds must be informed of the fair market value of the property. The seller must also be informed that the power of condemnation or eminent domain is not being utilized in the purchase of the property.
- CONFLICT OF INTEREST. - The strict conflict of interest provisions of the HOME program apply to employees or other persons related to THDA.
- ENVIRONMENTAL REVIEW. - A limited Environmental Review covering flood plains, airport clear zones or runway clear zones of civil or military airports is required.

## **ADDI ASSISTANCE**

- \$10,000 per household which may be applied as follows:
  - ADDI funds can be applied to the downpayment, closing costs (as specified below) and to reduce the principal balance of the loan.
  - The closing costs and prepaids charged to the borrower must not exceed 5% of the purchase price of the property.
  - THDA reserves the right to evaluate the appropriateness of any Partner Agency fees charged to the borrower. Complex and time intensive transactions which advance homeownership for priority target populations, i.e. Section 8 homeownership voucher participants, may merit additional closing costs.
  - Homebuyer Education reimbursement to the partner agency will be limited to \$150 per ADDI recipient.
  - Closing costs may include a \$100 processing fee for the partner agencies working directly with the applicant who receives the ADDI assistance.
  - Closing costs of \$150 per ADDI recipient may be included for codes inspections, if required.
  - Closing costs of \$100 per ADDI recipient may be included for lead-based paint visual assessment, if required.

- No funds shall be disbursed to the borrower at closing. If a settlement statement inadvertently shows any amounts to be paid to the borrower, such amounts must, instead, be applied as a prepayment of principal for the permanent loan.
- ADDI funds cannot be used for rehabilitation or repair work.
- THDA encourages the use of THDA mortgages or comparable financing whenever possible. However, THDA ADDI funds cannot be combined with Great Start mortgages. The proposed permanent financing must be at an interest rate which does not exceed the prevailing THDA Great Rate by more than two percentage points. All loans must have a fixed interest rate fully amortizing over the term of the loan. There can be no pre-payment penalty for early payoffs.
- The HOME recapture regulations apply to downpayment assistance provided under ADDI.
  - If the property stays in compliance with the HOME regulations, i.e. it remains the principal residence of the purchasing household for five years, the amount of the ADDI grant is forgiven at the end of the five year period. If the property is rented or otherwise does not remain the principal residence of the purchasing household during the five year period, the full amount of the ADDI grant must be repaid. If the property is sold within the five-year term, the amount of the ADDI grant is reduced by 20% per year and net proceeds are shared.
  - Net proceeds of the sale are the sales price minus closing costs and any non-HOME/ADDI loan repayments.
  - All recaptured funds are returned to THDA.
- Refinancing the first mortgage at any time during the ADDI five year compliance period will require repayment of the full \$10,000 of ADDI funds to THDA.

### **DOCUMENTATION REQUIRED TO RESERVE ADDI FUNDS**

- THDA Application for ADDI funds from prospective homebuyer.
- ADDI Partner Agency Certification of the following:
  - The purchase of the property is a voluntary transaction between the buyer and seller, and the seller is the owner-occupant of the property; and
  - The unit was not occupied by a tenant at the time the offer to purchase the property was made; and
  - The prospective homebuyer is a first-time homebuyer and is income eligible; and
  - The Good Faith Estimate does not include closing costs and prepaids charged to the borrower in excess of 5% of the purchase price of the property; and
  - The proposed permanent financing is at an interest rate which does not exceed the prevailing THDA Great Rate by more than two percentage points.

- Copy of the signed contract for Sale of Real Estate
- Copy of the signed Eminent Domain Disclosure to the Seller.
- Copy of Commitment Letter from lender for permanent financing.
- Copy of Environmental Review.

### **DOCUMENTATION REQUIRED TO DRAW DOWN ADDI FUNDS**

- The ADDI Invoice for Payment with the following required supporting documentation shall be received by THDA no later than five (5) working days prior to the desired closing date:
  - Name, address and telephone number of the closing agent;
  - A copy of the property appraisal;
  - Date of the scheduled closing;
  - Certification of visual lead-based paint assessment and supporting invoice for \$100, if required;
  - Certification of codes compliance and supporting invoice for \$150, if required;
  - Copy of the Homebuyer Education Certificate and supporting invoice for \$150 for homebuyers education counseling;
  - Invoice for Partner Agency processing fee of \$100.
- Upon approval by THDA, a copy of the ADDI Invoice, the check for the ADDI funds, and the Note and Deed of Trust will be sent to the closing agent.

### **DOCUMENTATION REQUIRED POST CLOSING**

- The closing agent will forward the following documents to THDA
  - Fully executed Note and Settlement Statement, and
  - Fully executed and recorded Deed of Trust to THDA.